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Hong Kong

Exporter Guide

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Report Highlights:

The Hong Kong market continues to be a strong destination for U.S. food and beverage products, with restaurant receipts and food retail sales of US\$12.87 billion and US\$11.47 billion in 2014, an increase of 3.4% and 6.7%, respectively, over 2013. Furthermore, Hong Kong provides additional market opportunities as a major hub for global sourcing and transshipment point to major Asia-Pacific markets.

Post:

Hong Kong

SECTION I. MARKET OVERVIEW

U.S. Food and Beverage Exports to Hong Kong

- U.S. agricultural exports to Hong Kong rose 6.2 percent to \$4.09 billion in 2014, eclipsing the previous record of US\$3.85 billion in 2013.
- U.S. exports of consumer-oriented agricultural products to Hong Kong reached \$3.82 billion, maintaining Hong Kong as the 4th largest export market after Canada, Mexico and Japan.
- The top prospects for U.S. food exports to Hong Kong include: red meat, poultry meat, fresh fruits, tree nuts, processed foods, fruits, wine, fish and seafood.
- With a population of just 7.2 million nominal agricultural and food production leave Hong Kong almost entirely dependent on food imports.
- U.S. food products are considered to be among the highest in quality, reliable in terms of food safety.

Hong Kong Food Imports

- Due to limited land resources, Hong Kong relies on imports for over 95% of its food requirements. According to the Agricultural Fisheries and Conservation Department 2014 statistics, local agricultural production was valued at \$106 million, including \$36 million in crop (mainly vegetables), \$32 million in livestock, and \$39 million in poultry production. Local production accounted for 1.9 percent of fresh vegetables, 79.6 percent of live poultry and 6.1 percent of live pigs consumed in the territory.
- Due to its central location, free port status and position as a regional purchasing and distribution center, a significant amount of Hong Kong imports are re-exported.

Table 1 – Hong Kong Imports (2010-2014) of Consumer Oriented Agricultural Products (COAP) & Seafood

Country	(in US\$ Million)	2010	2011	2012	2013	2014	Growth 14 v 13	Share in 2014	% of Re-exports of Gross Imports
World	Gross Imports	14,641	17,664	18,166	20,574	22,896	11%	100%	
	Re-exports	4,404	5,140	5,185	5,587	6,311	13%	100%	28%
	Retained Imports	10,237	12,524	12,981	14,987	16,586	11%	100%	
United States	Gross Imports	2,779	3,370	3,450	3,999	4,123	3%	18%	
	Re-exports	1,155	1,619	1,476	1,248	1,193	-4%	19%	29%
	Retained Imports	1,624	1,751	1,974	2,752	2,930	6%	18%	
China	Gross Imports	2,205	2,652	3,044	3,439	3,649	6%	16%	
	Re-exports	380	494	747	1,034	931	-10%	15%	26%

	Retained Imports	1,825	2,158	2,298	2,404	2,718	13%	16%	
Brazil	Gross Imports	1,420	1,650	1,645	2,254	2,544	13%	11%	37%
	Re-exports	658	551	540	658	946	44%	15%	
	Retained Imports	763	1,099	1,105	1,596	1,597	0%	10%	
Netherlands	Gross Imports	387	666	860	1,150	1,453	26%	6%	16%
	Re-exports	91	111	100	129	229	78%	4%	
	Retained Imports	295	555	761	1,021	1,224	20%	7%	
Australia	Gross Imports	666	771	812	835	943	13%	4%	24%
	Re-exports	84	80	99	123	227	85%	4%	
	Retained Imports	582	691	712	712	716	1%	4%	
France	Gross Imports	678	986	815	837	824	-2%	4%	28%
	Re-exports	160	215	190	199	233	17%	4%	
	Retained Imports	517	771	625	639	590	-8%	4%	
Thailand	Gross Imports	511	568	612	641	783	22%	3%	60%
	Re-exports	286	312	358	377	471	25%	7%	
	Retained Imports	224	256	254	264	312	18%	2%	
Iran	Gross Imports	366	215	275	247	528	114%	2%	37%
	Re-exports	129	103	131	111	198	78%	3%	
	Retained Imports	237	113	144	136	330	144%	2%	
Chile	Gross Imports	260	373	425	434	515	19%	2%	58%
	Re-exports	181	279	314	284	297	5%	5%	
	Retained Imports	79	94	110	150	217	45%	1%	
Germany	Gross Imports	307	435	392	393	514	31%	2%	17%
	Re-exports	166	146	131	67	85	27%	1%	
	Retained Imports	141	289	261	325	429	32%	3%	
Total of Top 10 Suppliers	Gross Imports	9,579	11,686	12,330	14,227	15,876	12%	69%	30%
	Re-exports	3,291	3,909	4,086	4,230	4,812	14%	76%	
	Retained Imports	6,288	7,778	8,244	9,997	11,064	11%	67%	
Total of Rest of World	Gross Imports	5,061	5,977	5,836	6,347	7,021	11%	31%	21%
	Re-exports	1,113	1,231	1,099	1,357	1,499	10%	24%	
	Retained Imports	3,948	4,746	4,737	4,990	5,522	11%	33%	

(Source: Calculations based on Global Trade Atlas data)

(Retained Imports = Gross Imports into Hong Kong – Re-exports out of Hong Kong)

- Hong Kong is a mature and sophisticated market with a growing demand for high-quality, high-value foods. The continuous influx of tourists and capital contributed to the economic growth in Hong Kong. As a result, the demand for food imports continued to grow in 2014. Major import items included red meats, fruits, poultry meat, seafood and tree nuts.
- Thanks to the growing economy and strong demand from local consumers and tourists, total retained imports of consumer-oriented agricultural products (COAP) and Seafood products in Hong Kong managed to grow by 6% in 2014.
- The U.S. consolidated its position as the largest supplier of COAP and Seafood products to Hong

Kong in 2014. Retained imports of these products from the U.S. and its closest competitor China in 2014 were US\$2.9 billion and US\$2.7 billion, representing market shares of 18% and 16% respectively.

- Hong Kong’s status as a gateway for trade with other markets in the region is increasingly opening up greater avenues for U.S. high value food products. In 2014, Hong Kong imported close to US\$23 billion COAP and Seafood from the world and re-exported 28% of these products.

Economy

- Hong Kong’s economy continued to grow in 2014. GDP and per capita GDP grew by 5.3% and 4.6%, and reached US\$288 billion and US\$39,758 respectively in 2014.

Table 2 – Hong Kong: Gross Domestic Product and GDP per capita

	2013	2014	Growth 14 vs 13
GDP	US\$273 billion	US\$288 billion	+5.3%
GDP per capita	US\$38,025	US\$39,758	+4.6%

(Source: Hong Kong Census & Statistics Department, US\$1=HK\$7.8)

Outlook in 2015

- The outlook for spending on food (imports) is less optimistic due to a slowing growth rate of 2 percent in 2015. However, U.S. agricultural products are well known in the market as safe, high-quality choices. In addition, the peg between U.S. dollar and HK dollar offers currency stability.

**Table 3 – Hong Kong
Summary of the Key Strengths and Challenges for the Market**

Strengths	Weaknesses
Hong Kong is one of the top markets in the world for food and beverages, processed, fresh and frozen gourmet products. U.S. exports of consumer oriented agricultural products to Hong Kong were US\$3.82 billion, consolidating its position as the 4 th largest market for the United States in 2014.	U.S. food products are not always price competitive. China is the largest competitor of U.S. food products.
Hong Kong is a major trading hub where buyers make purchasing decisions for a vast range of consumer oriented products that are transshipped to China and other parts of Asia	Transportation time and costs plus product availability due to seasonality (e.g. fresh produce) associated with importing U.S. food and beverage products to Hong Kong can make them less

	competitive than products available in the region or from China, Australia, and New Zealand (favorable in terms of location).
U.S. food products enjoy an excellent reputation among Hong Kong consumers, as they are renowned for high quality and food safety standards.	The importance of Hong Kong as a transshipment point and buying center for China and elsewhere is not widely known to U.S. exporters.
The U.S. was the largest supplier of agriculture, fishery, and forestry products to Hong Kong in 2014.	Hong Kong labeling and residue standards differ in some cases, which can impede trade.
Technical barriers to imports of U.S. products are generally very low.	Numerous Hong Kong food regulations are not in line with Codex, which can complicate import clearances.
A wide variety of U.S. products are available to Hong Kong consumers (over 30,000 different items).	While Hong Kong has one of the busiest container terminals in the world, it also has the most expensive port handling charges.
The link between the Hong Kong Dollar (HKD) to the U.S. Dollar helps insulate the HKD from currency fluctuations.	Hong Kong's top supermarkets are a duopoly that often request slotting fees.
In general, implementation and application of regulations is transparent and open.	Inflation is on the rise in Hong Kong. The increase in food prices may cause some consumers to turn to more lower-price lower-quality food products where U.S. products do not enjoy strong competitive advantage.
Hong Kong exporters choose to work with Hong Kong importers and distributors to re-export products to Mainland China because of Hong Kong's dependable legal system, financial system and rule of law.	
Most trans-shipments to Macau are purchased, consolidated, and shipped via Hong Kong.	
Demand is increasing rapidly for "healthy", high-quality foods, market segments where the United States is especially strong.	
Hong Kong concerns over food safety have made U.S. food products a top choice for quality and safety.	
Hong Kong's modern and efficient port terminal and free port status make it an attractive destination and for re-exports.	

Hong Kong is a “quality” and trend driven market so price is not always the most important factor for food and beverage purchases.	
Hong Kong is a dynamic market with a sophisticated international community where new high-quality products are readily accepted.	
Hong Kong is entirely dependent on imports for meeting its food needs. With continued economic growth, U.S. HVFB exports to Hong Kong grew by 11% in 2014 compared to 2013 and consolidated its position as our 4 th largest market for HVFB products in the world.	
Lack of local production means virtually no protectionist pressures for food and agricultural products.	
Hong Kong is in an economically stable region and its economy is expected to grow by 2% in 2015.	
Hong Kong’s duopolistic supermarkets have a wide distribution network. Cold chain and distribution channels for food products are generally efficient and dependable, as is the customs clearance process.	

SECTION II. EXPORTER BUSINESS TIPS

Importer Lists

ATO provides Hong Kong importer lists to U.S. exporters and assists to arrange meeting appointments, provided adequate lead-time is given. Please contact the ATO via Atohongkong@fas.usda.gov for further information and other business tips.

Language

The official written languages in Hong Kong are Chinese and English. The official spoken languages are Cantonese (the prominent Chinese dialect in Hong Kong and South China) and English. In general, all correspondence can be in English.

Travel Visa

Even though Hong Kong is now part of China, there is still a border boundary between Hong Kong and China. If you are traveling with a U.S. passport, you do not need a travel visa for Hong Kong. However, if you are planning to go to Mainland China, you need to apply for a travel visa into China.

Legal System

Hong Kong's legal system is firmly based on the rule of law and the independence of the judiciary. Hong Kong's legal system is separate from Mainland China. Also, Hong Kong is a separate customs territory from China.

Payment

Hong Kong importers are willing to pay by letter of credit in the beginning. When a trading relationship has been established, many of them prefer to pay by open accounts so as to cut transaction costs.

General Consumer Tastes and Preferences

- There is a growing popularity of frozen foodstuffs because more and more consumers believe that frozen foods are more hygienic. However, Hong Kong consumers in general still prefer fresh foodstuffs, particularly fish, produce and meat.
- Due to increasing prevalence of dual income families, ready-to-cook food has become more popular. Major supermarket chains in Hong Kong have been putting more emphasis on convenience foods, especially in their pre-prepared sections that are virtually serving ready-to-eat foods.
- Potential for growth in the processed/convenience sectors of Hong Kong's retail food markets is strong for U.S. high-value consumer foods such as general grocery items, ingredients for home meal replacement, and health food.
- Hong Kong consumers are increasingly aware of food safety issues and nutrition values of food products. Clear indications of nutritional value on the package have been a good marketing strategy for health foods.
- The sales of organic products have been increasing steadily. The price discrepancy between conventional and organic foods has narrowed over the years. Currently, organic products are generally priced between 20-40% higher. The most popular organic products are baby foods, vegetables, fruits, eggs, fresh meats, and fruit juices.
- Foods categorized as natural and having benefits to health are also appealing to Hong Kong consumers. For example, nut suppliers promote nuts as healthy snacks good for the heart, and many cereals are marketed as an effective means of controlling cholesterol.
- Hong Kong eliminated its import duty on wine in February 2008 and stimulated a surge in wines imports into Hong Kong. Hong Kong wine imports grew from US\$341 million in 2008 to nearly US\$1.1 billion in 2014, an increase of 219%.
- Demand for promotion package and discounts. Consumers are looking for "value for money products". Marketing tactics such as selling bundled economy packs or enclosing complimentary samples are usually used to stimulate sales. The most direct and effective way to boost sales is to offer discounts.

- Because of the limited living space in Hong Kong, it is inconvenient for Hong Kong consumers to store food products. Therefore, bulk-pack food products do not sell well in Hong Kong, and small package food products are preferred.

Import Regulations

Duties

With the exception of spirits, all food and beverage products can be imported to Hong Kong duty free.

Certificates & Permits

In Hong Kong, the legal framework for food safety control is defined in part V of the Public Health and Municipal Services Ordinance and the Food Safety Ordinance. The basic tenet is that no food intended for sale should be unfit for human consumption. Technical requirements for imports vary significantly according to the product. Products which require import permits/health certificates include meat, milk and frozen confections. The HKG accepts import applications from Hong Kong importers. In other words, local importers and not U.S. exporters are required to apply for import permits. U.S. exporters need to supply their agents/importers with necessary documentation such as health certificates from the U.S. government.

Labeling

All prepackaged food products in Hong Kong must comply with Hong Kong's labeling regulation. There are also labeling requirements for allergens and nutrients. U.S. labels may not meet Hong Kong labeling requirements particularly for products with nutritional claims. However, the Hong Kong government allows stick-on food labels, which could be arranged by Hong Kong importers with the permission of the manufacturers.

The marking or labeling of prepackaged food can be in either the English or the Chinese language or in both languages. If both languages are used in the marking and labeling of prepackaged food, the name of the food, ingredient lists and nutrition information must be provided in both languages.

Labeling for Biotech Food

The HKG does not have any specific biotechnology regulations with regard to the labeling of biotech food products. It makes no distinction between conventional and biotech foods. All are subject to the same food safety regulation. The HKG continues to promote voluntary labeling of GMO products as a viable alternative for the trade. The guidelines on labeling for biotech foods, released in 2006, are advisory in nature and do not have any legal effect. The threshold level applied in the guidelines for labeling purpose is 5 percent, in respect of individual food ingredient. Negative labeling is not recommended.

Organic Certification

While the Hong Kong Organic Center provides organic certification for local produce, Hong Kong does not have a law regulating organic food products. U.S. organic products can be sold in Hong Kong with the USDA organic logo.

Others

Under the food ordinances, there are regulations governing the use of sweeteners, preservatives, coloring matters, and metallic contaminants. The Hong Kong government enforces its food safety control according to Hong Kong’s food regulations. In the absence of a particular provision in Hong Kong food regulations, the HKG would draw reference from Codex and/or conduct risk assessments to determine whether a food meets the food safety standard.

Hong Kong’s first-ever pesticide residue regulation became effective August 2014. Its framework is largely built on Codex’s standard, supplemented by standards adopted in China, Thailand the U.S.

For details on Hong Kong’s general import regulations for food products, please refer to [FAIRS report](#).

Section III. Market Sector Structure and Trends

Among the three major market sectors of Hong Kong: the retail and HRI (hotel, restaurant and institutional) sectors present the best opportunity for U.S. exporters. The food processing sector in Hong Kong is relatively small and presents less opportunity for market development.

Food Retail

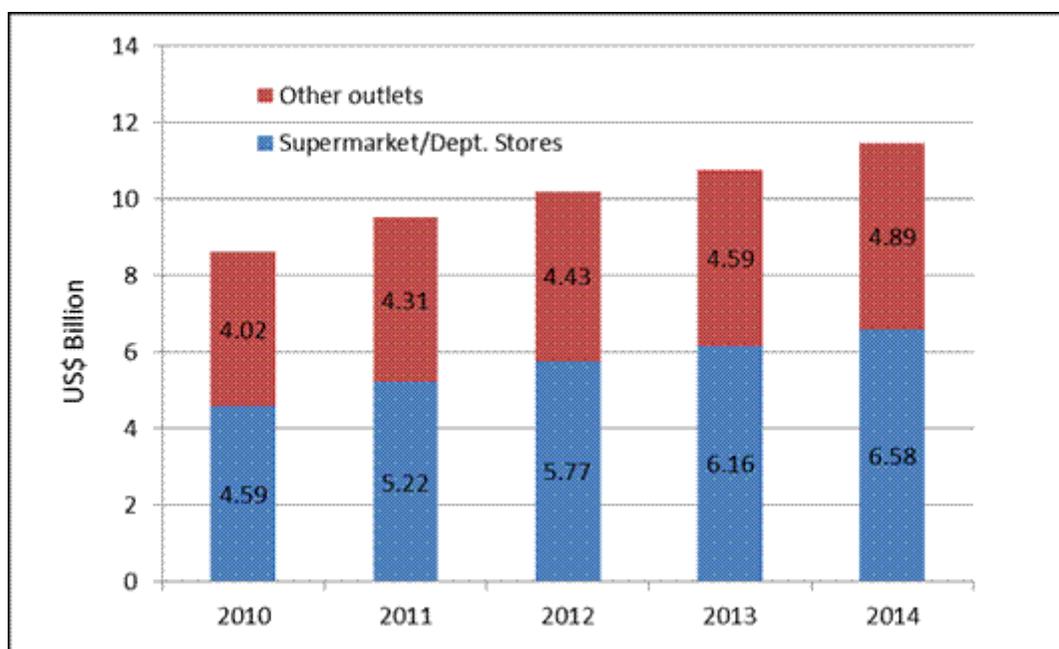
- Total retail sales of food and drinks in Hong Kong for 2014 reached US\$11.47 billion, representing growth of 6.7 percent compared to 2013. Relatively steady economic growth prospects should help maintain growth in the food retail sector and food retail sales in 2015.

Table 4 – F&B Retail Sales in Hong Kong (US\$ billion)

Channel	2010	2011	2012	2013	2014	Growth (14 vs 13)
Supermarket/Dept. Stores	4.59	5.22	5.77	6.16	6.58	6.8%
Other outlets	4.02	4.31	4.43	4.59	4.89	6.6%
Total	8.61	9.53	10.2	10.75	11.47	6.7%

(Source: Hong Kong Census and Statistics Department)

Chart 1 – F&B Retail Sales in Hong Kong (US\$ billion)



- With a highly centralized supermarket retail network, where two supermarket chains account for about 75 percent of the supermarket turnover, the total number of retail establishments stands at approximately 12,000. Retail shops in Hong Kong generally are very small in size, over 96 percent of which hire less than 10 employees.
- Traditionally, Hong Kong consumers shop for food daily because of a preference for fresh food. Much of the shopping is still done in traditional markets including wet markets and mom-and-pop shops. While both wet market and supermarket sales are increasing, supermarkets are taking a greater share of total sales. The supermarket's share in terms of retail sales rose from 44 percent of total sales in 1995 to 57.4 percent in 2014.

Table 5 – Sales by Retail Outlet

Outlet	2010	2011	2012	2013	2014
Supermarkets / Dept. stores	53%	55%	57%	57.3%	57.4%
Other outlets	47%	45%	43%	42.7%	42.6%
Total	100%	100%	100%	100%	100%

(Source: Hong Kong Census and Statistics Department)

- Although there will not be significant growth of the number of supermarkets, the retail sales share of supermarkets is expected to continue to expand in the future at the expense of traditional markets. Many supermarkets in Hong Kong now have successfully tapped the fresh food market by offering foods at very competitive prices and providing a comfortable shopping environment, which is different from traditional wet markets.
- Overall, wet markets are strong in fresh foods, while supermarkets are strong in processed, chilled and frozen, high added value, and canned food products. The competition between wet

markets and supermarkets has intensified in recent years. Some wet markets have even elected to offer air-conditioned, free shuttle rides to nearby residential areas to increase competition.

Supermarkets

Table 6 – Profiles of Leading Supermarket Chains in Hong Kong

Name of Retailer	Ownership	No. of Outlets	Type of Purchasing agent
Wellcome	Hong Kong	Over 280	Importers/Agents Exporters Consolidators
ParknShop	Hong Kong	Over 260	Importers/Agents Exporters Consolidators
CR Vanguard Shops	China	95 shops	Importers/Agents Exporters
DCH Food Mart	Hong Kong	Over 80 DCH Food Mart & DCH Food Mart Deluxe	Importers/Agents Exporters
Market Place by Jasons	Hong Kong	31	Importers/Agents Exporters Consolidators
AEON Stores (HK) Ltd.	Japan	8 supermarkets within department stores and 5 separate supermarkets	Importers/Agents
YATA	Japan	7	Importers/Agents
CitySuper	Hong Kong	4	Importers/Agents Consolidators
Sogo	Japan	2	Importers/Agents
Oliver's The Delicatessen	Hong Kong	1	Importers/Agents Consolidators
Uny	Japan	1	Importers/Agents

(Source: Websites of the above supermarkets)

- Two supermarket chains dominate the Hong Kong market: The Wellcome Co. Ltd. (over 280 outlets) and ParknShop (over 260 outlets). ParknShop and Wellcome account for about 75% of all supermarket turnovers in Hong Kong. Both supermarkets are able to work closely with real estate developers to open stores in strategic locations thus maintaining their significant market share. The other players include: China Resources Vanguard Shops (CRVanguard), Dah Chong Hong (DCH) Food Marts, Market Place by Jasons, AEON, YATA and CitySuper.
- CRVanguard focuses on local customers. While carrying a variety of products from different

countries, a major portion of them are of Chinese origin.

- Dah Chong Hong's outlets (DCH Food Marts) are generally located near wet markets. Dah Chong Hong is a major food importer with retail outlets that focus on frozen meat and seafood products.
- Market Place by Jasons, CitySuper and Oliver's The Delicatessen capture an upscale market. Clientele includes mainly affluent middle class and expatriate consumers. Customers are generally receptive to western foods. Both high-end supermarkets require no listing fees.
- Gateway Superstore and PrizeMart are two supermarkets in Hong Kong selling primarily U.S. products. PrizeMart has 22 stores and Gateway has 1 store. Both supermarkets import from U.S. consolidators and do not charge listing fees.
- AEON, YATA, Sogo and Uny are Japanese department stores with supermarket sections. These supermarkets attract many middle-class customers who are receptive to new products and will pay more for higher quality products. These three stores are popular spots for in-store promotions as they are packed with consumers seven days a week.
- Hong Kong supermarkets require slotting fees which are fees charged to allow a new product to be put on their shelves. This is a one-off fee for a trial period. The slotting fees are extremely negotiable and vary greatly among different supermarket chains. Major supermarket chains, such as Wellcome and ParknShop which have many branch stores, have expensive slotting fees. Industry sources revealed that key supermarket chains may charge HK\$1,000 (US\$130) per SKU for each of its store. A 30% discount may be offered to certain suppliers. The discount offered varies tremendously depending on the popularity of the products and the bargaining power of the supplying companies. Agents/importers will not bear this cost as it is normally just transferred to their principals.
- U.S. exporters should be prepared to encounter numerous trading term demands from Hong Kong food retailers, such as promotional discounts (number of discount promotions offered each year); back-end income (flat rebate per year that a U.S. exporter has to pay to the retail chain based on the annual turnover); D.A. (Distribution allowance - the fee that the supermarkets charge for distributing the products from its warehouse to its many branch stores); and incentive rebate (a percentage of turnover rebated to the supermarkets in case sales exceed the agreed amount). It can be expected that the bigger the supermarket, the harsher the trading terms. For general reference, about 15% of the annual turnover has to be rebated to the major supermarkets and 8% to small ones. Agents representing very popular items with large turnover usually have a stronger bargaining power and will be able to negotiate for a lower rebate rate.
- In the face of strong competition, major supermarket stores often offer discounts and tend to transfer the cost to suppliers by requesting lower prices for supplies. Given supermarkets' strong bargaining power, many suppliers have to give supermarkets special discounts which ordinary retailers do not enjoy.
- There is growth potential in Hong Kong's retail food market for U.S. grocery store items,

particularly new and different items, as food retail outlets continue to increase and diversify. Because of established ties and traditional relationships, most of Hong Kong's supermarket chains traditionally looked to Britain, Australia, New Zealand, and Canada for supplies. In recent years, however, buying habits are shifting and many more American items are now available on local grocery store shelves. Supermarkets tend to use consolidators to help them source new products which are popular in the United States.

Market Entry Approach

- Through setting up a representative office in Hong Kong: While this is the most direct and effective approach, it is very costly.
- Through U.S. Consolidators: Major supermarkets in Hong Kong work with U.S. consolidators for some of their products. However, the product quantities requested per shipment are usually small, especially when new products are purchased to test the market.
- Using Hong Kong Agents: This is the most popular approach. The advantage of having an agent is that they can help with marketing and distribution. Some companies may secure a very competitive price package with TV/magazine/radio for advertisements. In addition, well-established companies have extensive distribution networks not limited to one or two supermarkets.
- Direct to Supermarkets: For branded products to sell direct to supermarkets, supermarkets usually require exclusive rights in selling the products in Hong Kong through their own outlets only. Otherwise, they will not consider any direct imports. In this case, expensive slotting fees may be waived. For non-branded and large turnover products such as fruit, meat, and vegetables, supermarkets tend to buy direct from overseas exporters to cut costs.
- Direct selling to supermarkets is difficult because of strict on-time delivery and very often they will not be able to take a whole container. Logistics is the largest problem that U.S. exporters have to deal with if they want to sell direct to supermarkets. However, they can better test the market if they deal directly with retailers.

Convenience Stores

Table 7 – Profiles of Leading Convenience Stores in Hong Kong

Retailer Name	Ownership	No. of Outlets	Locations	Purchasing agent	Year established
7-Eleven	Hong Kong	Over 900	Hong Kong	Importers Agents	1981
Circle K	Hong Kong	Over 300	Hong Kong	Importers Agents	1985
VanGO	China	79	Hong Kong	Importers Agents	2007

(Source: Websites of the above convenience stores)

- There are over 1,300 convenience stores in Hong Kong. Two major chains dominate the market: 7-Eleven (over 900 outlets) and Circle K (over 200 outlets). They target the customer age group of 15-35. Convenience stores are characterized by round-the-clock operation. Since only a limited choice of brand names is available and prices are generally less competitive, most purchases are “convenience” in nature, i.e. goods are normally bought in small quantities for immediate consumption. Good sales items include packaged drinks, beer and snack food. The average size of a convenience store is 1,000 sq. ft. Slotting fees are also required for convenience stores.

Market Entry Approach

- Convenience stores largely buy goods from local importers and agents. Therefore, U.S. food exporters have to go through Hong Kong importers to have their products sold in convenience stores.

Traditional Markets

- Traditional markets include wet markets and mom-and-pop shops. They are widespread throughout the territory. Traditional markets used to account for the lion’s share of food retail. For example, they occupied around 54% of total retail food sales between 1995 and 1997. Yet supermarkets sales have exceeded traditional markets sales since 1998, and the dominating trend of the former is likely to persist and deepen in the future. Despite the growing significance of supermarkets in terms of food retailing, traditional markets remain key food retail outlets, particularly for seafood, meat and groceries. Wet markets in Hong Kong have changed gradually over the years. The newly built markets are built and managed by the Hong Kong government with air-conditioning and a more hygienic and pleasant environment than the old ones. Some, but not all, stalls in wet markets have freezers and chilling equipment, which is necessary to maintain food quality.
- Mom-and-pop shops around housing estates and schools are ideal retail outlets for drinks and snack foods. Such traditional markets offer small stalls and personal services that many Hong Kong consumers enjoy.
- “Kai Bo” is a growing local supermarket chains which started business in the early 1990s. Kai Bo now has 89 stores. A typical store has a floor area ranging around 1,500 sq. feet. Their stores sell mainly processed foods and produce. Most of the food supplies in these shops come from China and South East Asia. They also import snack foods and drinks from Europe. “Kai Bo” featured more on frozen products. However, only a few U.S. foods are on their shelves as these stores feature cheap prices and are after the mass market.
- “759 Store” is another fast growing local supermarket chains which started business in 2010. “759” used to operate small stores like convenience stalls selling pre-packaged products,

particularly snacks. The shop has now expanded to over 260 outlets including some larger-sized stores selling more food items including frozen foods, baby foods and other groceries.

Market Entry Approach

- U.S. food exporters must go through local importers or agents that have good distribution networks.

Trends in Promotional/Marketing Strategies and Tactics

- Supermarkets expanding store size: The supermarket industry is undergoing a face-lift to introduce larger size stores with an objective to provide one-stop shopping and convenience for customers. In addition to traditional grocery and household products, supermarkets are moving towards larger, more modern stores with more fresh food.
- Increasing demand for promotion packages and discounts due to strong competition amongst retailers: Marketing tactics such as selling larger economy packs or enclosing complimentary samples are usually used to stimulate sales. The most direct and effective way to boost sales is to offer discounts.
- Discounts: In the face of strong competition, major supermarket stores often offer discounts and tend to transfer the cost to suppliers by requesting lower prices for supplies. Given supermarkets' strong bargaining power as they have many retail outlets, many suppliers have to give supermarkets special discounts which ordinary retailers do not enjoy.
- Consumers becoming increasingly health-conscious and organic products growing in popularity: There has been a gradual shift in what food consumers want in Hong Kong. The importance of meat, especially red meat, has declined among some consumers, while other food groups, such as fruits and vegetables, are gaining in popularity. Consumers increasingly look for freshness, healthiness, new varieties and shorter meal-preparation time for food. Consumers want foods of higher nutritional value, but also increasingly pay attention to food safety and hygiene. In short, the marketing trend is to position food products as healthy, natural, nutritional, etc.
- Internet direct sales of food: Major supermarkets like ParknShop and Wellcome offer online grocery shopping platforms. The service is however not attracting a lot of interest, due to the convenience of shopping in Hong Kong, security concerns over payment via the internet and the cost of delivery.
- ATO Hong Kong organizes in-store promotions with major supermarkets to increase awareness of the high quality and variety of U.S. food products among customers. Buyers from Hong Kong supermarkets realize the quick-changing consumption temperament of local consumers, and many have expressed the need to source new products from the U.S. to capture changing tastes. With strong support from exporters and state regional trading groups, the ATO continues its efforts to promote U.S. products and help supermarkets expand their range of U.S. products.

- To promote U.S. food products, ATO participates in major trade shows in Hong Kong. U.S. exporters may wish to consider participating in these trade shows so as to introduce their products to Hong Kong buyers as well as buyers from other countries in the region.

**Table 8 – Hong Kong:
Trade Shows Featuring Food & Agricultural Products**

Date	Name of Show (check the <u>hyperlink</u> below for more details)
Nov 5-7, 2015	Hong Kong Int'l Wine & Spirits Fair
Dec 3-5, 2015	Hong Kong Int'l Bakery Expo
Dec 3-5, 2015	AgriPro Asia Expo
Mar 10-12, 2016	LOHAS Expo
May 24-26, 2016	Vinexpo
Aug 11-15, 2016	Hong Kong Food Expo
Aug 31-Sep 2, 2016	Natural & Organic Products Asia
Sep 7-9, 2016	Asia Fruit Logistica*
Sep 6-8, 2016	Seafood Expo Asia
Sep 6-8, 2016	Restaurant and Bar

(* USDA-endorsed trade shows, more information on USDA-endorsed trade shows can be found at: <http://www.fas.usda.gov/topics/exporting/trade-shows>)

Hotel, Restaurant and Institutional (HRI)

- Hong Kong restaurant industry purchases of US\$4.41 billion in foods and beverages generated sales of US\$12.87 billion in 2014. This represented an increase of 2.1 percent and 3.4 percent, respectively, over 2013. Restaurant purchases and receipts are expected to continue to grow in 2015.

Table 9 – Hong Kong Restaurants Receipts and Purchases (US\$ Billion)

	2013	2014	Growth (14 vs 13)
Restaurant Receipts	12.44	12.87	3.4%
Restaurant Purchases	4.32	4.41	2.1%

(Source: Hong Kong Census & Statistics Department, US\$1=HK\$7.8)

- As Asia's most cosmopolitan city, Hong Kong boasts around 14,000 restaurants serving a wide range of world cuisines. These restaurants are comprised of 35 percent Chinese, 58 percent non-Chinese restaurants, and 7 percent fast food outlets. In addition, there are over 1,000 bars, pubs and other eating and drinking establishments.

- **Chinese restaurants:** Chinese restaurants are popular among local citizens and tourists. There are a variety of Chinese restaurants in Hong Kong serving different regional cuisines: Canton, Shanghai, Beijing, Sichuan...etc. A typical lunch at a mid-range Chinese restaurant costs around HK\$150-300 (US\$19.23-38.46) per person and a typical dinner costs around HK\$200-450 (US\$25.64-57.69) per person.
- **Non-Chinese restaurants:** Many Hong Kong consumers enjoy western food, as do the over 60 million tourists (in 2014). 5-Star and other high-end western restaurants are as likely to be patronized by locals and tourists/visitors. Japanese food, fast food chains, coffee houses and casual dining establishments are also increasing their presence. A typical lunch at a western restaurant costs around HK\$150-350 (US\$19.23-44.87) per person and a typical dinner costs around HK\$250-500 (US\$32.05-64.10) per person.
- **Fast food outlets:** Fast food outlets are popular among Hong Kong consumers. The most popular fast food chains in Hong Kong are McDonald's, KFC and Pizza Hut. There are also some large local fast food chains such as Café De Coral, Maxim's and Fairwood that serve both Chinese and western foods. Competition among fast food chains is intense, as they each try to keep meal prices competitive. The average cost is around HK\$35 (US\$4.49) for breakfast, HK\$50 (US\$6.41) for lunch, HK\$30 (US\$3.84) for afternoon tea and HK\$70 (US\$8.97) for dinner. To further meet competition, many fast food operators have renovated their outlets to make them look more modern, spacious and attractive. To meet the demand of a growing number of health-conscious customers, fast food chains have also introduced more new ingredients and developed health-food options such as salads, fruits, and fresh juices.
- **Coffee Shops:** The coffee shop market continues to grow in Hong Kong's commercial areas. The two largest coffee house outlets are Starbucks – operating 145 outlets and Pacific Coffee 122 outlets. Most shops also offer basic menus consisting of muffins, pastries, cakes, sandwiches, and bottled beverages (juices and water). McDonald's has also vigorously expanded its McCafe in order to gain share in this growing market. Of its 238 outlets, 103 include a McCafe inside their shops.

Market Entry Approach

- Because of small individual consumption, local hotels, restaurants and most fast food operators usually cannot afford to import directly. The distribution of food and beverages to these operators is generally through import agents. U.S. exporters should contact Hong Kong importers to explore potential business opportunities.

Trends in Promotional/Marketing Strategies and Tactics

- Identify key players for the products - ATO Hong Kong can provide lists of importers, distributors, commodity cooperators and regional business groups.

- Test marketing may be required prior to establishing a presence in the market.
- Communicate product benefits to end-users - although distributors maintain the relationships with their customers, end users assert influence over the buying decisions, it is important to directly educate all stakeholders as to the features and benefits of your products.
- Participate in or visit trade shows – Hong Kong has an excellent reputation for hosting international trade shows. In cooperation with cooperators and regional groups, the shows will demonstrate the versatility and safety of U.S. food products. Please refer to Table 8 for a list of major shows in 2015.
- Stage menu promotions with major restaurant chains - Menu promotion dollars will be maximized if spent on promotion events held with the major restaurant chains. With the restaurant chains' announced intention to have an image overhaul, this provides for an opportunity to introduce new U.S. foods.
- Invite restaurant owners/chefs to seminars and/or to the U.S. - ATO Hong Kong/ cooperators organize seminars and trade missions to the U.S. with an intention to introduce U.S. products, meet U.S. exporters, and share with them food service operations in the U.S.

Food Processing

- The food processing industry in Hong Kong is relatively small compared to food retail and HRI sectors. The total output of the local food processing industry is estimated below US\$1 billion. Major local production includes instant noodles, macaroni, spaghetti, biscuits, pastries and cakes for both domestic consumption and export. Other significant sectors include canning, preserving and processing of seafood (such as fish, shrimp, prawns, and crustaceans); manufacture of dairy products (fresh milk, yogurt and ice cream); seasoning and spirits.
- Based on the trade agreement between Hong Kong and China (called Closer Economic Partnership Arrangement, or CEPA in short), all foods and beverages made in Hong Kong, subject to the CEPA's rules of origin, can enjoy duty-free access to the Chinese mainland. Non-Hong Kong made processed food and beverages products remain subject to rates according to China's tariff schedule.
- The CEPA zero tariff product list includes aqua-marine products, food and beverages, (certain dairy products such as yogurt and cheese, certain prepared meats, certain sugar confectioneries and cocoa preparations; certain preserved meats and seafood, bread, biscuits and cakes; preserved vegetables and fruits, fruit juices; sauces, water, etc.) and leather and fur products.
- Processed food and beverages items must comply with Hong Kong rules of origin in order to be imported to China tariff free. The rule of origin of individual products is basically determined by the manufacturing or processing operation. For example, milk and cream products are considered as "made in Hong Kong" only when the manufacturing processes of mixing, freezing sterilization and cooling are conducted in Hong Kong. The origin criteria for nuts is that the

baking, seasoning, and/coating must take place in Hong Kong. In the case of ginseng, the principal manufacturing processes of cutting and grinding must be conducted in Hong Kong.

- China’s zero import tariff applications for products made in Hong Kong certainly encourage food production in Hong Kong. The expansion of the local food processing industry will then trigger a demand for raw materials. Such demand may provide additional export opportunities for U.S. food ingredients suppliers.
- More information on CEPA can be found at: <http://www.tid.gov.hk/english/cepa/>

Market Entry Approach

- Food ingredients are sourced both through direct import by food processors and through middleman traders. Hong Kong traders and end-users tend to stay with suppliers with whom they know well and have done business with for some time. While exporters would do well exploring all channels, patience and understanding are required to establish a relationship of trust before trading can commence.

SECTION IV. BEST CONSUMER ORIENTED PRODUCT PROSPECTS

Notes :

- 1) 95% of Hong Kong food supplies are imported. Since Hong Kong’s domestic production is nominal the market size in the following table is equal to retained imports without taking into account local production. U.S. exports to Hong Kong are also based on imports minus exports.
- 2) Import tariff rates for all food and beverage products in the tables are zero except for spirits with alcohol content greater than 30%, which is 100%.
- 3) Products listed below either enjoy a large market import value or a significant growth rate for the last 5 years (2010-2014).

Table 10 – Hong Kong: Top 10 Prospects

(** Ranking and figures are based on gross import values)

(Source of data: Hong Kong Census and Statistics Department via Global Trade Atlas)

Product Category	2014 Retained Imports (MT)	2014 Retained Imports (US\$ million)	2010 – 2014 Average Annual Retained Import Growth	Key Constraints Over Market Development**	Market Attractiveness For USA**
Fish &	159 949 MT	115\$2 31	-6%	Major suppliers of fish and	U.S. fish and seafood

Seafood Products		billion	(volume) -1% (value)	seafood products are China (29%), Japan (14%), Norway (5%) and U.S. (5%).	products are perceived as high quality and safe. It is anticipated that these seafood products will continue to be popular among HRI sector in Hong Kong.
Fresh Fruit	677,978 MT	US\$1.07 billion	+6% (volume) +13% (value)	Hong Kong consumers prefer fresh fruit to frozen fruit. Competition from Thailand and China is keen as these countries supply tropical fresh fruit at competitive prices. The shorter travel time for shipments from these countries to Hong Kong also render their products “fresh” to Hong Kong consumers.	U.S. fresh fruit are well known for their large variety, good quality and tastes. U.S. was the largest supplier (22%) of fresh fruit to Hong Kong, followed by Thailand (20%) and Chile (18%).
Poultry Meat	294,043 MT	US\$864 million	-6% (volume) +1% (value)	Brazil moved in as the no. 1 poultry exporter to Hong Kong when U.S. poultry imports were temporarily banned during February 11 to April 30, 2004 due to Avian Influenza cases in the United States. Though the ban was later lifted, Brazil continued to be the largest competitor due to price competitiveness of its products and established business relationship between Brazilian exporters and Hong Kong importers.	Hong Kong import of poultry products from the U.S. increased significantly by 118% in 2014 to US\$488 million. While Brazil was still the leading supplier, the U.S. has caught up from market share of 17% in 2013 to 29% in 2014, consolidating the position of the 2 nd largest supplier of poultry meat to Hong Kong. U.S. products are highly regarded in food quality and food safety. More popular U.S. chicken products include chicken wing mid joints and chicken legs because of their sizes and quality. These two products are particularly popular among Hong Kong style cafes.
Pork	267,130 MT	US\$1.05 billion	0% (volume)	China and Brazil are the top suppliers of pork to Hong Kong because their products are very	Hong Kong imported US\$100 million worth of pork from the U.S.

			+12% (value)	price competitive. There is a big demand for price competitive prepared/preserved meatballs and other products typical in Chinese dishes in Chinese restaurants, which are made from pork. China enjoys the advantage of low processing cost.	accounting for 8% of the market share. U.S. products are highly regarded for quality and food safety.
Processed Fruit & Vegetables	201,307 MT	US\$487 million	+3% (volume) +16% (value)	China and the U.S. were the two largest suppliers, accounting for 37% and 24% market share respectively in 2014. Some international brands have operations in China and their exports to Hong Kong are considered as imports from China.	U.S. processed fruit and vegetables are well known of their superior quality and tastes. U.S. processed fruit and vegetables such as potatoes, nuts, sweet corn, mushrooms, peaches and pineapples will continue to be in large demand in Hong Kong.
Beef	461,328 MT	US\$2.26 billion	+43% (volume) +47% (value)	Because of BSE cases in the U.S., Hong Kong banned U.S. beef since 2005. Brazil beef took the opportunity to gain market share. Market share of U.S. beef gradually picked up following Hong Kong's opening to U.S. beef, first to boneless beef, since the beginning of 2006. Hong Kong re-opened its market for U.S. bone-in beef in February 2013, leading to a further increase of U.S. beef into Hong Kong.	Hong Kong consumers have high regards for U.S. beef in terms of quality and safety. The re-opening of the Hong Kong market for U.S. bone-in beef presents good opportunities.
Wine (Wines, wine, and sparkling wine)	30.2 million liters	US\$772 million	+2% (volume) +1% (value)	Competition is keen in Hong Kong. Major competitors come from France and Australia. French wine is traditionally more popular in Hong Kong.	Hong Kong imported US\$58 million of U.S. wine in 2014, accounting for 5% of the market share. The HKG abolished the import tax on wine and beer in February 2008. Hong Kong consumers are more and more receptive to wine.

					The HRI sector in Macau is growing, making it an excellent opportunity for U.S. wine traders to expand their exports.
Tree Nuts	74,946 MT	US\$940 million	-12% (volume) +7% (value)	The U.S. is very strong in supplying almonds, hazelnuts and pistachios. Some of the imports are re-exported to Vietnam and China for processing.	No local production
Fruit & Vegetable Juices	22,271 MT	US\$59 million	+4% (volume) +25% (value)	The U.S. is still the market leader. Hong Kong imported US\$39 million worth of fruit & vegetable juices from the U.S. in 2014, accounting for a market share of 59%.	Given the high quality of U.S. fruit & vegetable juices, U.S. fruit and vegetable juices such as orange juices, apple juices, grape juices, grapefruit juices, tomato juices and pineapple juices are expected to continue to be popular in 2015.
Organic Food and Beverage	Statistics not available (The size of the Hong Kong organic food and beverage market is estimated at US\$500 million, with an annual growth of 10-15%)	Statistics not available	Statistics not available	Organic F&B products are generally 20-40% higher in prices compared to non-organic products. There are many organic standards in the market and the poor quality of a country's organic products may negatively affect the image of organic products from all supplying countries.	As Hong Kong consumers are becoming more health-conscious, the demand for organic products is expected to grow in 2015. USDA Organic enjoys an excellent reputation among consumers in Hong Kong. Consumers generally have more confidence on USDA Organic standards than other countries. Grain products, soybeans, cereals, oats, noodles...etc are in good demand. Other products such as organic meat (beef and pork), condiments, poultry, eggs etc. are starting to have more interest in the market.

					There is also a strong demand for organic vegetables and fruits, organic coffee and tea products.
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SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Post Contact
 Foreign Agricultural Service (FAS)
 Home Page: <http://www.fas.usda.gov>

Agricultural Trade Office
 American Consulate General
 18th Floor, St. John’s Building
 33 Garden Road, Central
 Hong Kong
 Tel: (852) 2841-2350
 Fax: (852) 2845-0943
 E-Mail: ATOHongKong@fas.usda.gov
 Web site: <http://www.usconsulate.org.hk>
<http://www.usfoods-hongkong.net>

Department to Implement Food Safety Control Policy
 Food & Environmental Hygiene Department
 43rd Floor, Queensway Government Offices
 66 Queensway
 Hong Kong
 Tel: (852) 2868-0000
 Fax: (852) 2834-8467
 Web site: <http://www.fehd.gov.hk>

Department to Control the Importation of Plants & Live Animals
 Agriculture, Fisheries & Conservation Department
 5th – 8th Floor, Cheung Sha Wan Government Offices
 303 Cheung Sha Wan Road
 Kowloon
 Hong Kong
 Tel: (852) 2708-8885
 Fax: (852) 2311-3731
 Web site: <http://www.afcd.gov.hk>

Department to Issue License for Imported Reserved Commodities
 Trade & Industry Department
 18th Floor, Trade Department Tower

700 Nathan Road
Kowloon
Hong Kong
Tel: (852) 2392-2922
Fax: (852) 2789-2491
Web site: <http://www.tid.gov.hk>

Department to Register Health Foods Containing Medicine Ingredients

Department of Health
Pharmaceuticals Registration
Import & Export Control Section
18th Floor, Wu Chung House
213 Queen's Road East, Wanchai
Hong Kong
Tel: (852) 2961-8754
Fax: (852) 2834-5117
Web site: <http://www.dh.gov.hk>

Department to Issue License for Imported Dutiable Commodities

Hong Kong Customs & Excise Department
Office of Dutiable Commodities Administration
6th - 9th Floors, Harbor Building
38 Pier Road, Central
Hong Kong
Tel: (852) 2815-7711
Fax: (852) 2581-0218
Web site: <http://www.customs.gov.hk>

Department for Trade Mark Registration

Intellectual Property Department
Trade Marks Registry
24th and 25th Floors, Wu Chung House
213 Queen's Road East
Wan Chai, Hong Kong
Tel: (852) 2803-5860
Fax: (852) 2838-6082
Web site: <http://www.ipd.gov.hk>

Semi-Government Organization Providing Travel Information

Hong Kong Tourist Board
9th - 11th Floors, Citicorp Center
18 Whitfield Road, North Point
Hong Kong
Tel: (852) 2807-6543
Fax: (852) 2806-0303
Web site: <http://www.hktourismboard.com>

Semi-Government Organization Providing Hong Kong Trade Information

Hong Kong Trade Development Council

38th Floor, Office Tower, Convention Plaza

1 Harbor Road, Wan Chai

Hong Kong

Tel: (852) 2584-4188

Fax: (852) 2824-0249

Web site: <http://www.tdctrade.com>